

Function 570: Medicare

Function 570 (Medicare) includes only the Medicare program. Appropriated funds are used to administer and monitor the Medicare program. Medicare benefits comprise almost all of the mandatory spending in this function.

Appropriated Program

- ***House Republican Budget Cuts Medicare's Administrative Funds*** — For appropriated programs in Function 570 (Medicare), the House Republican budget is identical to the President's budget.²² For 2003, the House Republican budget funds Medicare administrative activities at \$3.6 billion, a cut of \$167 million (4.4 percent) below CBO's estimate of the level needed to maintain constant purchasing power. Over five years, (2003-2007), the Republican budgets provide \$18.9 billion for this purpose. This is \$1.6 billion (7.8 percent) below CBO's estimate of the level needed to maintain constant purchasing power.

The Medicare Reserve Fund

- ***House Republican Budget Underfunds Its Medicare Reserve for Prescription Drugs, Modernization, and Provider Adjustments*** — The House Republican budget replaces the President's inadequate proposal with its own inadequate proposal, a Medicare reserve fund. Like the President's budget, the House Republican budget does not include sufficient resources to establish a Medicare prescription drug benefit, increase provider payments equitably, and modernize Medicare in a manner yet to be defined.
- ***Size of Medicare Reserve Fund Is Open to Question*** — Using the Republicans' accounting method (OMB), the reserve fund increases Medicare spending relative to current law by \$89.1 billion over five years (2003-2007), and \$350.0 billion over ten years (2003-2012) for a proposal that accomplishes all three goals.

Using Congress' traditional accounting method (CBO), the reserve fund in the House Republican budget increases Medicare spending far less than is stated. Under the traditional method, Medicare spending relative to current law is increased by \$34.1 billion over five years (2003-2007), and \$124 billion over ten years (2003-2012). (See *The Magic Bullet of Creative Accounting — Republican Math* below for further discussion.)

²²The President's budget also displays \$83 million for 2003, and \$415 million over five years (2003-2007), in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* for further discussion.

- ***Conditions on Release of Reserve Fund*** — The reserve fund will be released only when a proposal including modernization, prescription drugs, and provider payment adjustments is before the House for consideration. All three issues must be addressed in a single measure.
- ***Provider Increases Alone Could Consume More than Half of the Reserve*** — According to MedPAC, an independent commission created to advise Congress about Medicare provider payments, provider increases alone are estimated to be \$174.0 billion over ten years (2003-2012). If enacted, these increased payments would consume half of the stated resources (\$350 billion) set aside for all three purposes.

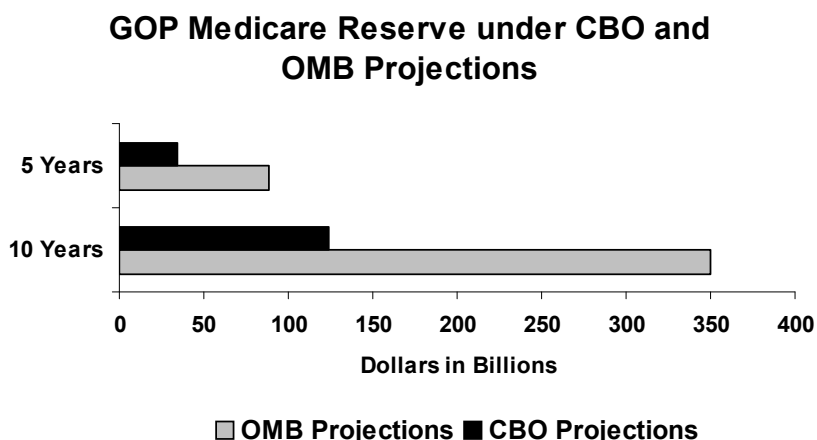
Although the House Republican budget includes more spending for Medicare than the President's budget, (\$350 billion over ten years (2003-2012) compared with \$190 billion over the same period when measured by OMB), it is still woefully inadequate to establish a meaningful prescription drug benefit that is affordable for all seniors, adjust provider payments, and modernize Medicare in some undefined manner.

The Magic Bullet of Creative Accounting — Republican Math

- ***Changing the Accounting Method to Suit the Need*** — Discussions of baselines are usually left to technicians while others roll their eyes at the mere thought of the topic. However, in order to understand the House Republican budget, one must pull out the green eyeshade. Without it, one would not see why it could possibly matter how the beans are counted.

A baseline is the way in which we account for projected spending under current law. It is the benchmark against which all increases and decreases are measured. If someone says he is increasing or decreasing a particular program such as Medicare, that increase or decrease is measured against a baseline.

In the case of Medicare, using OMB's baseline, rather than CBO's baseline, results in Medicare increases appearing higher than they would than if they were compared with the CBO baseline. This is because OMB's Medicare baseline is significantly lower (\$226 billion over ten years, 2003-2012) than CBO's Medicare baseline.



For example, if someone says that the new level of spending for a program is \$100, the increase in the program is measured against its existing level (the baseline). If the current level is \$50, then the increase is also \$50. If the current level is \$25, then the increase is \$75.

The House Republican budget measures its Medicare increases against a benchmark (OMB's baseline) that projects lower current spending than other benchmarks (CBO's baseline.) This makes the Medicare increases in the House Republican budget appear higher than they would otherwise.